

Unicorn Asset Management

Q1 Fund Commentary

UK Income Fund

Market Review

Following a strong end to 2023, global equity markets were relatively subdued during the first three months of 2024. The main factors that are fuelling investor concerns are inflation and an increasing threat of further regional conflict. Mixed inflation data has forced investors to reassess the speed and extent of interest rate cuts, while geopolitical risk remains extremely high.

In the UK, GDP data confirmed that the UK experienced a technical recession in the fourth quarter of 2023, but economic growth forecasts for 2024 and 2025 have recently been revised upwards, to +0.5% and +0.7% respectively.

Following a strong end to 2023, global equity markets were relatively subdued during the first three months of 2024. The main factors that are fuelling investor concerns are inflation and an increasing threat of further regional conflict. Mixed inflation data has forced investors to reassess the speed and extent of interest rate cuts, while geopolitical risk remains extremely high.

Despite muted returns from equity markets in general, the UK's largest quoted companies continued to outperform their small-cap peers during the quarter under review.

Performance, Activity & Fund Commentary

The Unicorn UK Income Fund returned +1.8% in the quarter under review, modestly underperforming the UK Equity Income sector return of +2.5%. The Deutsche Numis Smaller Companies (plus AIM) Index (DNSCI) declined in value by 0.8% over the same period.

The Fund's relative outperformance when compared to the DNSCI was mainly a result of strong operational and financial performance delivered by the portfolio of investee companies during a key reporting period for the UK equity market.

During the quarter, the Fund exited four holdings (Wincanton, Spectris, Rotork, and Regional REIT) and added five:

Avon Protection, a company that specialises in the manufacture of respiratory protection equipment for military, law enforcement, and firefighting personnel. It enjoys a strong market position in the defence and public safety markets; areas offering stable growth and recurring demand.

A.G. Barr, the maker of iconic Scottish soft drink Irn-Bru, which has a strong brand portfolio, robust balance sheet, and a history of consistent cash generation.

Hargreaves Services, a diversified industrial and property services company, has successfully transitioned from its coal legacy to focus on growth areas such as land regeneration and sustainable energy solutions, positioning it well for long-term value creation.

Foresight Group, a leading infrastructure and private equity investment manager, benefits from the growing demand for sustainable and renewable energy projects, as well as its diversified portfolio across various sectors and geographies.

VP PLC, a specialist equipment rental company serving a wide range of industries, has a strong market position, diversified customer base, and a track record of profitable growth, this leaves it well positioned to benefit from the ongoing recovery in construction and infrastructure spending.

The top contributor to performance over the quarter was Wincanton which added +91bps to performance.

Wincanton was subject to a bid approach initially from Ceva, a French-owned logistics firm but was later bought by GXO the US giant in the industry. Increasingly, overseas firms are acquiring UK listed businesses that are sitting on



low valuations despite delivering strong operating performances. 4imprint also contributed well to performance (+88bps) after releasing excellent full year results which beat market expectations.

Outlook & Positioning

Equity market conditions appear to be turning more favourable, with the rate of inflation seemingly in steady decline and interest rates therefore predicted to commence a downward trend before the end of 2024. The re-emergence of inflation in 2021 created an exceedingly difficult environment for smaller quoted companies. A reversal in direction for interest rates should provide a much more supportive backdrop for income investors, despite the bleak geo-political backdrop. The outlook for the Fund during the remainder of 2024 and beyond is favourable, especially if the growth in earnings of the investee companies is maintained. Should this earnings growth coincide with a prolonged period during which interest rates decline steadily, then the Fund is particularly well-placed to perform strongly.

The UK equity market currently appears directionless, as investors await more concrete evidence that inflation is firmly under control and that the Bank of England's policy of fiscal tightening has not been too aggressive. We expect the macro-economic picture to become clearer as the calendar year progresses. Meanwhile, we remain confident in a positive outcome for the Fund during the second half of its financial year.

